

## **CHAPTER 2**

### **UNITED STATES DEPARTMENT OF AGRICULTURE**

Dairy Programs of the U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) has the day-to-day oversight responsibilities for the National Dairy Promotion and Research Board (Dairy Board) and the National Fluid Milk Processor Promotion Board (Fluid Milk Board). Dairy Programs oversight activities include reviewing and approving the Dairy and Fluid Milk Boards' budgets and budget amendments, contracts, advertising campaigns, and investment plans. Approval of program materials is also a responsibility of USDA. Program materials are monitored for conformance with their respective Acts and Orders and with other legislation such as the Nutrition Labeling and Education Act.

Dairy Programs continues to insure that the collection, accounting, auditing, and expenditure of generic promotion funds is consistent with the enabling legislation and orders; to qualify State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs); and to provide for evaluation of the effectiveness of both programs' advertising campaigns. USDA also assists the Boards in their assessment collection, compliance, and enforcement actions. Other USDA responsibilities relate to the nominating and appointing of Board members, amending the orders, conducting referenda, and conducting periodic program audits. USDA representatives attend full Board and Board committee meetings.

### **National Dairy Promotion and Research Board Oversight**

#### ***NOMINATIONS AND APPOINTMENTS***

The 36 members of the Dairy Board who administer the program serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members are selected by the Secretary of Agriculture from nominations submitted by producer organizations, general farm organizations representing other producers, Qualified Programs, or other interested parties.

Forty-four nominations were received by USDA for the 12 Dairy Board members whose terms expired October 31, 2001, and one for a Dairy Board vacancy. A press release issued on October 3, 2001, announced the appointment of nine new members and four incumbents. All except one will serve three year terms ending October 31, 2004. Newly appointed members were: Marlin J. Rasmussen, St. Paul, Oregon (Region 1); Robert R. Bignami, Chico, California (Region 2); Margaret A. Gambonini, Petaluma, California (Region 2); Patricia M. Van Dam, Chino, California (Region 2); Rosalie M. Geiger, Reedsville, Wisconsin (Region 6); Alice S. Moore, Frazeyburg, Ohio (Region 9); Deborah A. Benner, Mt. Joy, Pennsylvania (Region 11); and David E. Hardie, Lansing, New York (Region 12). Re-appointed to serve

second terms were: William R. Ahlem, Jr., Hilmar, California (Region 2); Steve P. Frischknecht, Manti, Utah (Region 3); Lynda S. Foster, Ft. Scott, Kansas (Region 4); and Robert K. Herman, Taylorsville, North Carolina (Region 10).

There was one resignation from the Dairy Board in 2001. Ruth I. Laribee, Lowville, New York (Region 12), resigned and was replaced by Audrey G. Donahoe, Frankfort, New York. Her term expires October 31, 2002.

Lists of current Dairy Board members appear in **Appendix A-1**. **Appendix B-1** is a map of the contiguous 48 States depicting the 13 geographic regions under the Dairy Promotion and Research Order (Dairy Order).

### ***FOREIGN AGRICULTURAL SERVICE***

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the U.S. Dairy Export Council's (USDEC) foreign market development plan and related export contracts. USDEC export contracts also are reviewed by AMS Dairy Programs to ensure conformance with the Dairy Production Stabilization Act of 1983 (Dairy Act) and Dairy Order and with established policies. The USDA's Foreign Market Access Program and the Market Promotion Program provided matching funds to USDEC for dairy product promotion and market research in Japan, Mexico, Southeast Asia, South Korea, and Latin America.

### ***CONTRACTS***

The Dairy Act and Dairy Order require that all contracts expending producer funds be approved by the Secretary (7 CFR 1150.140). During 2001, USDA reviewed and approved 172 Dairy Board and Dairy Management Inc. (DMI) agreements, amendments, and annual plans. Funding approvals were from the 1996, 1997, 1998, 1999, 2000, and 2001 fiscal periods. See **Appendix E** for the contractors and the initiatives approved by USDA during 2001.

### ***CONTRACTOR AUDITS***

During 2001, DMI retained the certified public accounting firm of KPMG Peat Marwick to audit the records of the following entities for projects in dairy foods research, media and advertising services, marketing research services, public relations services, and export (through USDEC): California Dairy

Research Foundation, Bozell Worldwide Inc., Wirthlin Worldwide, Fleishman Hillard, Contacts International Consulting Ltd., and National Milk Producers Federation, respectively. DMI is implementing the audit recommendations for improving management and internal controls over contracts.

## ***COLLECTIONS***

The Dairy Act specifies that persons who pay producers and producers marketing milk directly to consumers, commonly referred to as "responsible persons," shall remit assessments to the Dairy Board or to Qualified Programs for milk produced in the United States and marketed for commercial use.

The Dairy Act provides that dairy farmers can direct up to 10 cents of their 15-cent per hundredweight assessment to Qualified Programs. During 2001, the Dairy Board received about 5.11 cents of the 15-cent assessment.

## ***COMPLIANCE***

Compliance by responsible persons in filing reports and remitting assessments continues in a timely manner and at a high rate. Only minor differences were discovered when comparing the audit results to what was reported by the responsible persons. The Dairy Board also verifies that the credits claimed by responsible persons are actually sent to Qualified Programs. This verification is done by contracts with each Qualified Program.

When non-compliance exists, the Dairy Board takes initial action on the matter. If the Dairy Board is unsuccessful in resolving the violation, the matter is referred to USDA for further action.

## ***QUALIFIED PROGRAMS***

USDA reviewed applications for continued qualification from 62 Qualified Programs. A list of the 62 active Qualified Programs is provided in **Appendix G**. In line with its responsibility for monitoring the Qualified Programs, USDA obtained and reviewed income and expenditure data from each of the Qualified Programs. The data reported from the Qualified Programs are included in aggregate form for 2000 and 2001 in **Tables 1-2** and **1-3**.

## **National Fluid Milk Processor Promotion Board Oversight**

### ***NOMINATIONS AND APPOINTMENTS***

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. Fluid Milk Board members who fill vacancies with a term of 18 months or less are permitted to serve two additional 3-year terms. Fluid Milk Board members are selected by the Secretary from nominations submitted by fluid milk processors, interested parties, and eligible organizations. In a news release issued on July 10, 2002, the Secretary of Agriculture announced five new appointments and three reappointments to the Fluid Milk Board. Newly appointed members were: Joseph Cervantes, Binghamton, New York (Region 4); James S. Jaskiewicz, Lakeland, Florida (Region 5); Gary L. Aggus, Springfield, Missouri (Region 11); Lawrence V. Jackson, Pleasanton, California (Region 12); and Charles D. Price, Johnstown, Pennsylvania (At-Large Processor). Reappointed to serve second terms were: Mary Ellen Spencer, Chelsea, Massachusetts (Region 2); Roger D. Capps, Carlinville, Illinois (Region 8); and Ronald M. Foster, Modesto, California (Region 14). The newly appointed and reappointed members were seated at the July 11-13, 2002, Fluid Milk Board meeting.

Five vacancies occurred on the Fluid Board, due to company mergers and one resignation. The Fluid Milk Promotion Order provides that no company shall be represented on the Board by more than three representatives. The vacancies were: Sylvia C. Oriatti, Rosemont, Illinois (Region 3); Alan L. Faust, Cincinnati, Ohio (Region 6); Michael H. Leb, Walnut Creek, California (Region 12); and Ann Puelz Ocana, Phoenix, Arizona (At-Large Processor). The vacancies were filled by: Michael F. Nosewicz, Cincinnati, Ohio; William R. McCabe, Orrville, Ohio; Lawrence V. Jackson, Pleasanton, California; and Michael A. Krueger, Phoenix, Arizona, respectively.

A list of current Fluid Milk Board members appears in **Appendix A-2**. **Appendix B-2** shows a map depicting the 15 geographic regions under the Fluid Milk Promotion Order (Fluid Milk Order).

### ***PROGRAM DEVELOPMENT***

The Fluid Milk Board contracted with the International Dairy Foods Association (IDFA) to manage the program. IDFA contracted with Bozell Worldwide, Inc., Weber Shandwick, Inc., Marketing Drive Worldwide, Inc. (formerly McCracken Brooks Communications, Inc.), and Flair Communications, Inc., to develop the Fluid Milk Board's advertising, consumer education/public relations, and promotion programs, respectively.

### ***CONTRACTOR AUDITS***

The Fluid Milk Board retained the certified public accounting firm of Synder, Cohn, Collyer, Hamilton & Associates P.C. to audit the records of Bozell Worldwide, Inc., to determine if the agency had conformed to the financial compliance requirements specified in their agreement with the Board for the period of January 1, 2000, through December 31, 2000. Results of the audit were favorable in some areas such as systems of internal controls but identified inconsistencies regarding expenditures and commissions billed to the Board. The Board has worked with Bozell Worldwide, Inc. to resolve the issues noted in the compliance audit. The Board is continuously working to enhance its internal contract control system to ensure that the amounts invoiced to the Board are in compliance with established contracts and procedures.

### ***COMPLIANCE***

Compliance by fluid milk processors in filing reports and remitting assessments continues in a timely manner and at a high rate. During this fiscal period, there have been no new cases of delinquent accounts referred to USDA.